

Message Text

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ACTION NEA-10

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SUBJECT: BUSINESS COMMUNITY REACTION TO CABINET CHANGES AND
BHUTTO ADDRESS

REF: (A) KARACHI 2113; (B) ISLAMABAD 10028

SUMMARY. THE BUSINESS COMMUNITIES IN KARACHI, LAHORE AND ISLAMABAD HAVE GENERALLY REACTED FAVORABLY TO THE CABINET CHANGES AND TO BHUTTO'S ADDRESS TO THE BUSINESS COMMUNITY REPORTED REFTEL A. THE COMPLEXION OF THE NEW CABINET, WHICH IS NOW WITHOUT THE ONCE POWERFUL LEFTIST FINANCE MINISTER MUBASHIR HASAN, THE TIMING AND SUBSTANCE OF BHUTTO'S OCTOBER 22 SPEECH, AND THE RECENT MUCH STRICTER LABOR LAW, ARE ALL SEEN AS SIGNALS THAT THE GOVERNMENT GENUINELY WISHES A MORE ACTIVE ROLE BY THE PRIVATE SECTOR. CONFIRMATION OF THIS WILL HAVE TO BE BORNE OUT BY AMICABLE RELATIONSHIPS BETWEEN THE NEW CABINET AND THE COMMUNITY OVER THE COMING MONTHS. BECAUSE OF LATENT FEARS OF FURTHER NATIONALIZATION, WE DO NOT ANTICIPATE ANY UPSURGE IN PRIVATE INVESTMENT FOR AT LEAST ANOTHER SIX MONTHS. END SUMMARY.

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1. OVER THE LAST FIVE MONTHS THERE HAVE BEEN A SERIES OF DEVELOPMENTS WHICH POINT CLEARLY TO A MORE SYMPATHETIC ATTITUDE ON THE PART OF THE BHUTTO GOVERNMENT TO PRIVATE ENTERPRISE. THE LATEST MANIFESTATIONS OF THIS ARE THE DROPPING OF MUBASHIR HASAN AS FINANCE MINISTER, HIS REPLACEMENT BY A MODERATE, THE APPOINTMENT OF OTHER MINISTERS WITH CLOSE TIES WITH THE BUSINESS COMMUNITY, AND BHUTTO'S IMPORTANT OCTOBER 22 SPEECH TO THE BUSINESS COMMUNITY. EARLIER SIGNALS WERE THE FY 1975 FEDERAL BUDGET WHICH RESTORED SOME BUSINESS INCENTIVES AND DID NOT INCREASE BUSINESS TAXES, THE REFUSAL OF THE GOP TO TAKE ADVANTAGE OF NEAR BANKRUPTCIES OF COTTON YARN MILLS BY NATIONALIZING THEM, THE RECENT STRICT LABOR LAW, AND BY THE REPEATED STATEMENTS BY BHUTTO THAT THERE WOULD BE NO FURTHER NATIONALIZATION DURING HIS GOVERNMENT. THE NATIONALIZATION ACTIONS OF THE BHUTTO GOVERNMENT, THE LAST ONE OF WHICH TOOK PLACE ONLY TEN MONTHS AGO, HAVE NEVERTHELESS DISCOURAGED PRIVATE INVESTMENT AND CREATED A CLIMATE OF SUSPICION TOWARD BHUTTO WHICH HE WILL FIND DIFFICULT TO ERADICATE. BHUTTO IS OBVIOUSLY NOW SEEKING TO MEND HIS FENCES WITH THE PRIVATE SECTOR AND IT MAY WELL BE THAT IN TIME THESE EFFORTS WILL LEAD TO A SIGNIFICANT RESUMPTION OF PRIVATE INVESTMENT.

2. CONGEN KARACHI REPORTS THAT SEVERAL SENIOR MEMBERS OF BUSINESS COMMUNITY, INCLUDING THE "STATESMAN" OF THE 22 FAMILIES, AMIR ALI FANCY, FIND CAUSE FOR MEASURED OPTIMISM IN BOTH CONTENTS OF BHUTTO ADDRESS AND MANNER AND AMBIENCE IN WHICH IT WAS DELIVERED. WHEN IT IS TAKEN IN CONTEXT WITH OTHER RECENT EVENTS, THESE BUSINESSMEN FIND MORE SIGNIFICANCE IN BHUTTO'S MOST RECENT ENCOUNTER WITH BUSINESS COMMUNITY THAN IN THE OTHERS WHICH HE HAS ORGANIZED IN KARACHI OVER PAST TWO YEARS. BUSINESS LEADERS WHO WERE PRESENT DURING LATEST BHUTTO PERFORMANCE HAVE OBSERVED THAT ATMOSPHERE WAS MUCH LESS FORMAL THAN IN PREVIOUS MEETINGS. FOR FIRST TIME IN MEMORY OF COMMUNITY, WHISKEY WAS SERVED AT SUCH A MEETING AND BHUTTO PARTOOK THEREOF. ALTHOUGH BHUTTO HELD NO LONG PRIVATE CONVERSATIONS WITH INDIVIDUALS DURING EVENING, MEMBERS OF NEW CENTRAL CABINET, WHO ARRIVED WELL IN ADVANCE OF PRIME MINISTER, WERE MUCH MORE FRIENDLY THAN ON PREVIOUS OCCASIONS. FROM ATTITUDE OF MINISTERS, IT SEEMED CLEAR THAT LIMITED OFFICIAL USE

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BHUTTO WISHED PROMOTE CONCILIATORY ATMOSPHERE WHICH IN PAST ENCOUNTERS BETWEEN GOP AND BUSINESSMEN WAS NOTICEABLY LACKING.

3. ACCORDING TO SEVERAL OF THOSE PRESENT, MANNER IN WHICH SPEECH GIVEN AS WELL AS GENERAL CONTENTS WAS CONSIDERABLY MORE REASSURING THAN ON FORMER OCCASIONS WHEN PM LECTURED AND ALMOST HARANGUED COMMUNITY. BUSINESS LEADERS BELIEVE PARTICULARLY SIGNIFICANT WAS STATEMENT THAT 22 FAMILIES

WERE "NO LONGER HATED BY PEOPLE" AND THAT THEY NOW NOT CONSIDERED "BLOODSUCKERS." SINCE BUSINESSMEN ACUTELY AWARE OF BHUTTO'S PROCLIVITY FOR ATTRIBUTION TO "THE PEOPLE" OF HIS OWN LIKES AND DISLIKES, IN THIS CASE THEY TAKE HIS STATEMENT TO MEAN THAT 22 FAMILIES NOW HAVE BEEN OFFICIALLY WASHED CLEAN OF SIN WITH WHICH THEY WERE FOUND TO BE AFFLICTED AT TIME PPP CAME TO POWER. LIKE ANY PARDONED SINNERS THEY FEEL RELIEVED BY THEIR NEW CONDITION.

4. BUSINESSMEN ALSO FOUND SIGNIFICANCE IN BHUTTO'S STATEMENT THAT GOP WISHED TO "JOIN HANDS" WITH BUSINESS COMMUNITY TO BUILD MORE PROSPEROUS ECONOMY AND THAT BUSINESSMEN CAN NOW PLAY IMPORTANT ROLE IN BUILDING ECONOMY. AMIR ALI FANCY SEES LATEST BHUTTO EFFORT AS "OPENING OF DIALOGUE" WITH BUSINESS COMMUNITY WHICH COULD BE CONFIRMED IN MONTHS AHEAD BY CONCRETE ACTIONS ON PART OF NEW CABINET MEMBERS AND THUS LEAD TO TURN-AROUND IN INVESTMENT CLIMATE AND PROCLIVITY OF BUSINESS COMMUNITY TO COOPERATE WITH PPP REGIME TO BUILD A BALANCED ECONOMY. HE BELIEVES THIS TIME BHUTTO MAY REALLY MEAN WHAT HE SAYS CONCERNING FULL ATTENTION TO BE GIVEN BY GOP TO BUSINESSMEN AND CONCERNING THEIR FREEDOM TO SEE ANY MINISTER. IF RELATIONS OF BUSINESS COMMUNITY WITH NEW MINISTERS PROVE FRUITFUL THEN FANCY BELIEVES TURN-AROUND IN ATTITUDES COULD COME WITHIN THREE TO SIX MONTHS, ALTHOUGH SIGNIFICANT INCREASE IN NEW INVESTMENTS WOULD TAKE TWO YEARS AT MINIMUM.

5. ALL BUSINESS SECTOR PEOPLE IN KARACHI WITH WHOM CONGEN HAS SPOKEN, AND THESE INCLUDE WORKING OFFICIALS OF KCCI, FPCCI, AND KARACHI STOCK EXCHANGE, BELIEVE SPEECH MUST BE TAKEN IN CONTEXT WITH OTHER RECENT EVENTS WHICH CONSIDERABLY MORE IMPORTANT THAN SPEECH ALONE. MOST IMPORTANT OF THESE ACTIONS IS DROPPING OF MINISTER OF FINANCE MUBASHIR HASAN

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FROM CABINET, WHICH BUSINESSMEN HAVE LONG DESIRED AND WHICH WAS REGARDED AS LITMUS TEST OF THE DIRECTION IN WHICH BHUTTO WOULD MOVE IN RELATION TO OVERALL ECONOMIC POLICIES. KARACHI BUSINESS SECTOR, TO A MAN, HAVE DISMISSED BHUTTO'S STRAIGHT-FACED CLAIM THAT MUBASHIR'S ABSENCE FROM NEW CABINET WAS DUE TO "DOMESTIC AND OTHER REASOS," AS A POLITICIAN'S STATEMENT FOR POLITICAL PURPOSES, WITH A MINIMUM OF FACTUAL CONTENT.

6. KARACHI BUSINESSMEN ALSO SEE AS FAVORABLE TO THEIR CAUSE THE POLITICAL COMPLEXION OF THE NEW CABINET WHICH IS

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BELIEVED TO BE CONSIDERABLY MORE CONSERVATIVE THAN PREVIOUS CABINET. AMONG THOSE MINISTERS WHO ARE REGARDED AS CONSERVATIVES AND WHO WILL TREAT BUSINESS PROBLEMS SYMPATHETICALLY ARE MINISTER OF COMMERCE MIR AFZAL KHAN (OWNER OF ONE OF COUNTRY'S LARGEST SUGAR MILLS, WITH HAROON FAMILY CONNECTIONS AND WITH BANK ASSETS OF OVER FOUR CRORES OF RUPEES); MINISTER OF POWER YUSUF KATTAK (BROTHER OF LEADING INDUSTRIALIST, RETIRED LT. GEN. HABIBULLAH); AND MINISTER OF COMMUNICATIONS MUMTAZ ALI BHUTTO (ZAMINDAR AND SENIOR MEMBER OF SINDHI LAND-OWNING FAMILY TO WHICH PM BHUTTO ALSO BELONGS).

7. NEW MINISTER OF FINANCE MOHAMMED HANIF ALSO IS VIEWED FAVORABLY BY ALL MEMBERS OF KARACHI BUSINESS COMMUNITY WITH WHOM CONGEN HAS SPOKEN. GENERAL RESPONSE, WHEN QUESTION OF HANIF BROUGHT UP, HAS BEEN A SMILE AND COMMENT THAT HANIF BOTH ASTUTE AND FLEXIBLE AND THAT, DESPITE LACK OF EXPERIENCE IN FINANCIAL MATTERS, HE WILL TAKE ADVICE OF TECHNICIANS BELOW HIM AND DIRECTIONS FROM "THE BIG BOY," WHO WILL NOW HAVE STRONGER INFLUENCE ON FINANCIAL AND ECONOMIC POLICY THROUGH HIS ADVISERS THAN IN DAYS WHEN MINISTER OF FINANCE MUBASHIRE HASAN AND MINISTER OF PRODUCTION J.A. RAHIM WERE IN POWER.
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8. OTHER IMPORTANT RECENT EVENT WHICH SEEN LENDING FURTHER WEIGHT TO PM'S SPEECH, IS PASSAGE OF NEW LAW (REF B) MAKING LABOR OFFENSES TRIABLE. BUSINESS COMMUNITY CONSIDERED PASSAGE SUCH LAW AS SINE QUA NON TO INCREASE INDUSTRIAL PRODUCTION.

9. IN SUMMATION, KARACHI BUSINESS COMMUNITY BELIEVES COMPLEX-ION NEW CABINET, MUCH STRICTER LABOR LAW AND NEW EFFORT AT COMMUNICATION BETWEEN PM AND BUSINESS LEADERS MAY REPRESENT BOTTOMING OUT OF ANTI-BUSINESS PERIOD IN PPP ADMINISTRATION WHICH COULD PRESAGE REAL UPTURN IN GOP-BUSINESS SECTOR RELATIONSHIPS. CONFIRMATION OF THESE POSSIBLE TREND LINES WILL HAVE TO BE BORNE OUT BY AN AMICABLE RELATIONSHIP BETWEEN THE NEW CABINET AND THE BUSINESS COMMUNITY OVER COMING MONTHS.

10. CONGEN LAHORE HAS DISCUSSED BHUTTO'S ADDRESS WITH MIAN TAJAMMAL HUSSAIN, CHAIRMAN OF CHENAB TEXTILE MILLS, PRESIDENT OF LAHORE STOCK EXCHANGE, AND FORMER PRESIDENT OF LAHORE CHAMBER OF COMMERCE. HUSSAIN HAD JUST RETURNED FROM KARACHI, WHERE HE ATTENDED HIGH-LEVEL BUSINESSMEN'S SESSION WITH PRIME MINISTER BHUTTO. HE WAS ALSO PRIVILEGED TO HAVE BEEN INCLUDED IN PRIVATE SESSION WITH PM OVER DRINKS PRIOR TO DINNER.

1. HUSSAIN SAID BHUTTO HAD TOLD HIM STRAIGHT OUT THAT HE HAD MADE CHANGES IN CABINET IN PART TO SATISFY LONG-STANDING AND WELL-KNOWN COMPLAINTS FROM BUSINESS COMMUNITY. HOWEVER, PM HAD EMPHASIZED THAT HE HAD NOT TAKEN MEASURES UNDER PRESSURE AND WOULD NOT TOLERATE BUSINESS COMMUNITY TRYING TO DICTATE TO HIM ABOUT COMPOSITION OF HIS CABINET. THAT SAID, PM URGED HUSSAIN TO IMPRESS UPON HIS FELLOW BUSINESS-MENT URGENT NEED FOR INCREASED PRIVATE INVESTMENT IN PAKISTAN. IN THAT REGARD, BHUTTO ASSURED HUSSAIN THAT THERE WOULD BE NO FURTHER NATIONALIZATION OF PRIVATE SECTOR DURING HIS GOVERNMENT'S TERM OF OFFICE.

12. HUSSAIN SAID HE TRIED TO GET BHUTTO TO EXPLAIN PRECISELY WHAT HE MEANT BY "TERM OF OFFICE." WHILE HE DID NOT OBTAIN A SPECIFIC AND DIRECT RESPONSE, HUSSAIN CAME AWAY FROM MEETING WITH CLEAR CONVICTION THAT BHUTTO MEANT THERE WOULD BE LIMITED OFFICIAL USE

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NO FURTHER NATIONALIZATION AS LONG AS HE REMAINED PRIME MINISTER, EVEN IF FRESH ELECTIONS WERE HELD.

13. HUSSAIN SAID HE TOLD BHUTTO AFTER ADDRESS HE WAS HAPPY TO HEAR PM'S REMARKS WHICH SEEMED TO REFLECT DESIRES OF BUSINESS COMMUNITY. HOWEVER, HE CLAIMED TO HAVE POINTED OUT

THAT BUSINESS COMMUNITY HAD HEARD SIMILAR WORDS BEFORE, BUT THEN HAD BEEN FACED WITH ACTIONS THAT BELIED WORDS. HE HOPED THAT THIS TIME IT WOULD BE DIFFERENT. AFTER BHUTTO MADE SYMPATHETIC NOISES, HUSSAIN PROPOSED THAT PM HOLD SMALL PRIVATE MEETING WITH HANDFUL OF TOP BUSINESS EXECUTIVES IN ISLAMABAD SOMETIME AFTER HIS RETURN FROM USSR. IF BHUTTO MEANT WHAT HE SAID, HUSSAIN ARGUED, HE WOULD STAND BETTER CHANCE OF CONVINCING BUSINESSMEN IN PRIVATE SESSION THAN HE WOULD IN LARGE PUBLIC MEETINGS, SUCH AS THAT IN KARACHI. HE SAID BHUTTO PROMISED TO FIND TIME FOR SUCH MEETING SOON AFTER SECRETARY KISSINGER LEAVES PAKISTAN.

14. ASKED WHAT HE THOUGHT OF DEPARTURE OF MUBASHIR HASAN AND APPOINTMENT OF HANIF AS FINANCE MINISTER, HUSSAIN SAID HE AND OTHER BUSINESSMEN WERE PLEASED. ALTHOUGH HE DID NOT KNOW HANIF WELL, HE SAID GENERAL IMPRESSION IN BUSINESS COMMUNITY WAS POSITIVE ONE, BASED MAINLY UPON HANIF'S ACTIONS AS LABOR MINISTER OVER PAST YEAR OR SO. HUSSAIN HAD HEARD THAT THOSE PERSONS WHO HAD DEALT PERSONALLY WITH HANIF FOUND HIM MODERATE, REASONABLE AND SENSIBLE. MOREOVER, HE SEEMED TO BE A MAN WHO WAS TRUE TO HIS WORD; ON OTHER HAND, ONE WAS NEVER SURE AFTER TALKING TO MUBASHIR WHAT ACTION HE WOULD TAKE THE MINUTE ONE LEFT HIS PRESENCE. WHILE HANIF REMAINED TO BE PROVED OUT AS FINANCE MINISTER, HUSSAIN THOUGHT GENERAL REACTIONS OF BUSINESS COMMUNITY WOULD BE POSITIVE.

15. LAHORE CONGEN STATES THAT TAJAMMAL HUSSAIN HAS BEEN INVETERATE AND SOMETIMES TRENCHANT CRITIC OF BHUTTO GOVERNMENT. THIS IS FIRST TIME CONGEN HAS HEARD HIM SPEAK WITH FAVOR ABOUT PROSPECTS FOR PRIVATE BUSINESS UNDER PRESENT GOVERNMENT. IF IT WERE ANOTHER MAN, CONGEN MIGHT BE TEMPTED TO ASCRIBE HIS APPARENT CHANGE OF HEART TO PRIVATE MEETING WITH BHUTTO (WHOSE POWERS OF PERSUASION ARE WELL KNOWN). HOWEVER, HUSSAIN HAS MET QUIETLY WITH BHUTTO BEFORE, AND HAS NOT SPOKEN THIS WAY. IF HIS NEW-FOUND OPTIMISM IS CONTAGIOUS

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OR IF HE CAN PASS IT ALONG TO OTHER BUSINESSMEN, SOON THERE MAY BE BEGINNINGS OF A TURNAROUND IN PRIVATE BUSINESS SECTOR. HOWEVER, TWO OR THREE OTHER BUSINESSMEN WITH WHOM CONGEN LAHORE SPOKE DISMISSED BHUTTO'S KARACHI SPEECH AS "MORE OF THE SAME" AND EVEN HUSSAIN HAD TO ADMIT THAT IT WILL TAKE MINIMUM OF SIX MONTHS FOR BHUTTO'S WORDS TO BE BACKED UP BY ACTIONS WHICH MIGHT CONVINCE BUSINESSMEN.

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